February 23, 2004

The Honorable Don Nickles, Chairman
The Honorable Kent Conrad, Ranking Member
Committee on the Budget
Washington, D.C. 20510

Dear Chairman Nickles and Ranking Member Conrad:

This letter transmits the views and estimates of the Committee on Banking, Housing, and Urban Affairs regarding the funding of programs in our jurisdiction, as required by Section 301 of the Congressional Budget Act of 1974.

**Public Transportation**

The Committee has jurisdiction over the public transportation programs authorized by Chapter 53 of Title 49, United States Code, including that portion funded by the Highway Trust Fund. With the expiration of the authorizations provided for by the Transportation Equity Act for the 21st Century (TEA-21), and passage by the Senate of S.1072, we seek your support for the continued growth of the federal investment in public transportation provided in that bill for a multi-year reauthorization. Public transportation is an essential part of the nation's surface transportation system that makes the entire system work better. The Committee urges that increases in transportation investment maintain the historical balance between highways and public transportation to ensure that the maximum benefits of economic growth, reduced congestion, and improved air quality can be achieved. In addition, the Committee supports the continued split of gas tax revenues for highways and public transportation. This split is an important recognition that transit use has a strong impact on highway users. These features are embodied in S.1072 and the Committee strongly supports its provisions.

Over the last year, the Committee pursued methods of making the most efficient use of federal dollars and included numerous features in S.1072 to make the public transportation program more efficient as it serves ever-increasing numbers of people. In addition, the Committee worked closely with other committees to ensure that the increases in funding included in S.1072 were matched by increased revenues to the Highway Trust Fund and offsets to any reductions in general fund revenues. A growing demand exists for public transportation in communities of all sizes and in all areas of the country. Public transportation is also growing in importance in terms of meeting the needs of residents in less urbanized areas, particularly for the transportation needs of the disabled, poor and elderly. We urge the Budget Committee to include public transportation funding at levels consistent with S.1072, which we believe are sufficient to maintain vital transportation service to the nation.

## Regulatory Reform for Government Sponsored Enterprises

A top priority for the Committee in 2004 is passage of legislation that creates a strong new independent regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. The Administration has also proposed a new regulatory framework for the housing-related government sponsored enterprises (GSEs). Part of this reform includes establishing a new home purchase goal for Freddie Mac and Fannie Mae to enhance minority and low-income homeownership.

As the Committee continues its debate over various legislative proposals, our efforts are aimed at providing a new regulator with the independence, strength and credibility necessary to carry out its mandate. A strong regulator must possess the supervisory and enforcement powers available to other safety and soundness regulators. The President's Budget proposes legislation that would provide the new GSE regulator with funding outside of the appropriations process with mandatory assessments on the GSEs to cover the costs. The Committee supports such a structure as part of the regulatory reform package. Making this package of reforms will produce regulatory credibility that will ultimately benefit the government sponsored enterprises, protect taxpayers, and strengthen our nation's housing markets.

## Money Laundering/USA Patriot Act

In the last six months, the Committee has heard from former and present leaders charged with carrying out the Nation's efforts to track the flow of money and support to terrorists around the world. A previous Deputy National Security Advisor for Combating Terrorism and a high ranking Treasury official both commented on the lack of enforcement resources at the Department of the Treasury. The investigators and analysts are a key link between the Government and the financial services industry. In addition, these same officials were concerned by the lack of focused and coordinated organization of the Nation's resources dedicated to the task of tracking money and support of terrorism. The Administration has proposed a 12.7 percent increase in the budget of the Financial Crimes Enforcement Network (FinCEN) and the 3.6 percent increase for Treasury's Office of Foreign Assets Control (OFAC). These increases appear to be designated to bolster three areas: expanding FinCEN's regulatory enforcement and supervision by implementation of new technology outreach programs; increasing personnel dedicated to outreach and industry training; and increasing the number of analysts providing strategic and tactical exploitation of the data.

Along these same lines, we are concerned that there has been no analysis or provision for the needs of the new position created in the Intelligence Authorization Act of 2003: the Assistant Secretary of the Treasury for Intelligence and Analysis. An integral upgrade in Treasury's capacity to coordinate its terror financial tracking efforts is essential. There is little evidence of a proposed increase in other resources necessary to make this complex effort complete. Nor, does there appear to be a significant increase in personnel concomitant with the increased sphere of responsibility created by the USA PATRIOT ACT, which expanded the industries that are subject to anti-money laundering and other terror finance laws. These are all areas which will bear considerable scrutiny under the Committee's oversight function in the coming months.

## Securities and Exchange Commission

The Committee fully supports the President's Budget FY 2005 request of $893 million for the SEC. The SEC plays a vital role in assuring the integrity and transparency of our markets. The SEC must have adequate financial resources to protect investors and ensure the integrity of our financial markets. The Committee believes that full funding of the President's request is essential in meeting the SEC's needs to increase mutual fund oversight and to continue implementation of the Sarbanes-Oxley Act.

**International Finance and Trade**

The Administration continues to place considerable emphasis on the completion of free trade agreements around the world. Last year, such agreements were concluded with Chile and Singapore. During the current fiscal year, the Administration, in addition to the recently concluded free trade agreements with Australia and Central America, is pursuing free trade agreements also with Morocco, Thailand, Bahrain, Southern Africa, Dominican Republic, Panama, and the Andean countries. Also, the Administration has made clear its intention of working to get the Doha Round talks back on track following the unfortunate turn of events in Mexico last year.

This emphasis on trade agreements makes imperative adequate funding to support U.S. Government agencies and activities designed to ensure that trade partners are complying with the spirit as well as the letter of their signed commitments. For this reason, the $11 million increase in the fiscal year 2005 budget request for the International Trade Administration, while modest relative to the growing size of that agency's mission, should be supported. Similarly, the $4 million increase over fiscal year 2004's budget for the International Trade Commission warrants Congress's support. Concerns about foreign dumping – the ITC's recent approval of a petition complaining about foreign dumping of shrimp on the U.S. market is a case in point – will not go away for the foreseeable future, if ever, and it is vitally important for many American businesses that the federal government provide appropriate levels of protection against such dumping.

The Administration's budget request for fiscal year 2005 reflects a $10 million increase over the current fiscal year for the Department of Commerce Bureau of Industry and Security (BIS). BIS is the U.S. Government agency responsible for licensing the export of U.S. goods and services that have both commercial and military applications. The ongoing investigation into the nuclear black market involving Pakistan, Libya, Iran and North Korea has illuminated the continuing danger of the failure of the world to properly police itself with respect to the export of potentially sensitive technologies. Robust funding for BIS is a national security imperative, and we strongly urge the Budget Committee's support for this funding increase.

## National Flood Insurance Program

The Committee has shown consistent support for the National Flood Insurance Program (NFIP). Earlier this year, Congress reauthorized the National Flood Insurance Program to June 30, 2004. The Committee intends to pursue a multi-year reauthorization of the NFIP in this legislative session. Reauthorization will focus on addressing repetitive loss properties and moving the NFIP toward actuarial soundness.

## Regulatory Relief Legislation

The Committee will continue its work in addressing undue regulatory burden on financial institutions and their customers. One provision likely to be part of our legislative package would allow the Federal Reserve to pay interest on the required reserves of depository institutions which are held by the Federal Reserve. While reserve requirements are only one tool for implementing monetary policy, the Committee is concerned about the increased bank usage of retail sweep accounts to avoid the reserve requirements. The resulting decline in the level of required reserves could adversely affect the Federal Reserve's ability to implement monetary policy.

Along with the potential complications for implementing monetary policy, not allowing the payment of interest is an unfair tax on banks and causes banks to engage in inefficient shifting of customers' monies. Eliminating this tax could also mean higher interest rates for bank depositors, assuming banks pass along benefits to account holders.

Because this provision may increase costs to the Federal Reserve, a budgetary cost is likely to be associated with this proposal. We urge the Budget Committee to work with the Banking Committee to make any necessary accommodation in the resolution.

## Housing and Community Development Programs

The President's Budget for the Department of Housing and Urban Development includes a number of reforms aimed at streamlining programs and providing greater flexibility. These steps will enable states and local governments to target resources where they are most needed. The Committee supports the President's proposal of $200 million for the funding of American Dream Downpayment to help an estimated 40,000 low-income families a year to become first-time homeowners through assistance with down payment and closing costs.

The Committee intends to closely examined the President's proposal for a zero downpayment FHA single-family mortgage. As the single-family program does not receive a positive credit subsidy, a new loan product would be expected to have no impact on the budget.

## Deposit Insurance Reform

Legislation is necessary to address some potentially destabilizing aspects of the current federal deposit insurance system. The President's budget proposes to merge the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) in 2005, resulting in increased outlays of $1.2 billion over the next five years. The BIF and SAIF are the two deposit insurance funds that cover losses to member banks and thrifts, respectively. A merger would create a stronger, more diversified fund and would also eliminate the possibility of a premium disparity between the BIF and SAIF. The Committee fully supports the merger of the BIF and SAIF. In addition, the Committee supports additional changes to fund management and insurance pricing that will lead to less volatile premiums for financial institutions and a more risk-based insurance system. The package of reforms likely to be adopted will improve the deposit insurance system's role in providing economic stability and provide the right incentives to insured institutions. We urge the Budget Committee to work with the Banking Committee in preparing this year's budget resolution to ensure that the resolution does not preclude legislative options to reform the deposit insurance system to better protect the U.S. taxpayer.

## Community Development Financial Institutions Fund

The President's FY 2005 Budget proposes $48 million in funding for the Community Development Financial Institutions Fund. The Committee intends to carefully consider the reauthorization of the CDFI. Its goals are similar to other programs offered by the Small Business Administration, the Department of Commerce, and the Department of Housing and Urban Development. The key question is whether the dollars currently allocated through the CDFI might be better spent through well-established and perhaps more effective programs.

Sincerely,

Richard Shelby
Chairman